



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

AUDITS

IN THE MATTER OF THE BOARD'S SELECTION)	<u>ORDER ACKNOWLEDGING RECEIPT</u>
OF CONSULTANTS TO PERFORM AUDITS OF)	<u>OF AUDIT REPORTS</u>
THE COMPETITIVE SERVICES OFFERINGS OF)	
NEW JERSEY'S SEVEN ELECTRIC AND GAS)	Docket No. AA00040232
UTILITIES, PURSUANT TO THE ELECTRIC)	EA00040233, EA00040234,
DISCOUNT AND ENERGY COMPETITION ACT,)	EA00040235, EA00040236,
N.J.S.A. 48:3-55, 48:3-56 and 48:3-58)	GA00040237, GA000040238,
	GA00040239

(SERVICE LIST ATTACHED)

BY THE BOARD:

At its Agenda Meeting of April 19, 2000, the Board authorized Staff to issue a Request for Proposal (RFP) to Independent Consultant firms to perform Audits of the Competitive Services Offerings of New Jersey's seven electric and gas distribution companies ("Utilities") pursuant to N.J.S.A. 48:3-55, 48:3-56 and 48:3-58.

The primary scope of these audits was to review the Utilities' competitive services offerings so as to determine whether the utilities have complied with the Electric Discount and Energy Competition Act, and the Board's rules, regulations and orders related to competitive services. The Consultants were to offer their expert opinion, based on an appropriate methodology, as to whether there was strict separation and allocation of each utility's revenues, costs, assets, risks, and functions, between the utility's electric and/or gas distribution operations and its related competitive business segments (RCBS).

The audits were also to determine: (1) whether there was cross subsidization between utility and non-utility segments within a public utility or holding company; (2) whether the separation of utility and non-utility organizations is reasonable based upon the Board's affiliate relation and fair competition standards ("the Standards"); (3) the effect on ratepayers of the use of utility assets in the provision of non-safety related competitive services; (4) the effect on utility workers; and (5) the effect of utility practices on the market for such services.

The Consultants were also asked to give their opinion on whether any other service(s) offered by the utilities is a competitive service and to quantify, if possible, any amount that each utility unfairly allocated to the RCBS.

On April 19, 2000, Staff mailed a Request for Proposal (RFP) to 61 qualified consulting firms, including accounting and management consulting firms. Division of Audit Staff

(Staff) also mailed letters to approximately 177 minority and women owned firms informing them of the RFP. Finally, the RFP was available on the Board's website, which allowed all qualified firms the opportunity to bid.

On May 8, 2000, Staff held an RFP Review Conference with representatives from the seven utilities and with 22 of the 30 consulting firms, which had indicated an interest in submitting a proposal. At that conference, specific Staff concerns were discussed as components of the audit.

These audits were to be completed within a ninety-day period. Accordingly, at its Agenda Meeting of May 10, 2000, the Board decided that one consultant firm would be used for Public Service Electric & Gas Company ("PSE&G"), one for the rest of the electric industry, and one for the rest of the gas industry as the best way to ensure that these audits would be done within the required timeframe.

By Monday May 22, 2000, ten competitive services offerings proposals were received solely or jointly from 14 consulting firms for evaluation.

The Division of Audits, the Division of Energy, and the Chief Economist participated in the evaluation process. Staff's evaluation criteria consisted of: (1) conformance to the RFP; (2) quality and appropriateness of the work plans; (3) experience and qualifications of the firm and its professional personnel; (4) recognition of specific concerns of the Board and Staff, including a review of each utility's comments on the competitive standards, and the utility's use of manpower; and (5) consideration for the demonstrated quality of work by those firms or individuals that have previously performed assignments for the Board. Finally, Staff and the Chief Economist conducted interviews with the five highest rated firms.

At its Agenda Meeting on July 6, 2000, the Board selected: (1) the combined firms of Northstar, Vantage and Mitchell & Titus ("Vantage") to perform the competitive services audit of Public Service Electric & Gas Company; (2) the combined firms of PMC Management Consultants and Warinner, Gesinger & Associates ("PMC") to perform the competitive service audits of the three electric utilities (Conectiv, GPU Energy, and Rockland Electric); and (4) Schumaker & Associates ("S&C") to perform the competitive services audits of the three gas utilities (Elizabethtown Gas Company, New Jersey Natural Gas Company, and South Jersey Gas Company).

The audits, performed by the three selected auditing teams, under the direct supervision of the Division of Audits, commenced on July 10, 2000 and were completed on October 16, 2000, at which time the audit results were submitted to the Board.

Pursuant to N.J.S.A. 48:3-56 and 48:3-58, the seven utilities audited, as well as any intervenors, shall have the right to contest the methodology and rebut the findings of these audits in a filing with the Board. The Board will review the reports along with all the comments by the utilities, intervenors, if any, and Staff and will then decide whether a hearing process is required after which the Board will render a decision on the merits of the recommendations and other substantive competitive services and affiliate relations standards issues.

Accordingly, the Board, ACKNOWLEDGES RECEIPT, for filing purposes only, of the

Competitive Services Audit Reports in their entirety, and HEREBY DIRECTS that any utility or any party wishing to contest the methodology or findings of the Audits, or to otherwise comment on the Audit results, file its comments with the Board Secretary on or before November 15, 2000. Any party wishing to intervene shall file a Motion For Intervention on or before November 15, 2000. The Motion should include the basis, scope of issues, and the specific utility company audit for which intervention is requested. Any reply comments for such motions must be filed on or before November 22, 2000.

The Executive Summaries of all seven audit reports will be available on the BPU's Website at www.bpu.state.nj.us. Any party wishing to receive the full report should contact the Division of Audits at (973) 648-2689, where they can be obtained upon payment of the appropriate statutory charges.

DATED: October 27, 2000

BOARD OF PUBLIC UTILITIES
BY:

SIGNED

HERBERT H. TATE
PRESIDENT

SIGNED

CARMEN J. ARMENTI
COMMISSIONER

SIGNED

FREDERICK F. BUTLER
COMMISSIONER

ATTEST:

SIGNED

FRANCES L. SMITH
SECRETARY